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July 18, 2005

**EX PARTE**

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12th Street, S.W.  
Washington, D.C. 20554

**RE: In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45**

Dear Ms. Dortch:

On July 15, 2005, Kathleen Grillo, Michael O'Connor, Katherine O'Hara, and Ed Shakin of Verizon met with Cathy Carpino, Cheryl Callahan, James Eisner, Greg Guice, Jim Lande, Carol Pomponio, and Rodger Woock of the Wireline Competition Bureau regarding the above-referenced proceeding. The attached presentation formed the basis of the discussions.

Pursuant to Section 1.1206(b) of the Commission's rules, one electronic copy of this notice is being filed in the above-referenced proceeding.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Kathleen Grillo".

Attachment

cc: Cathy Carpino  
Cheryl Callahan  
James Eisner  
Greg Guice  
Jim Lande  
Carol Pomponio  
Rodger Woock

# Universal Service Contribution

July 15, 2005



# Important Considerations

- If the Commission adopts a numbers-based contribution methodology, it must be fair, competitively neutral, assess all providers of voice services (including VoIP), and easy to administer.
- Any numbers-based plan must ensure companies have the ability to recover their USF costs from end users.
- Any new plan must address the unique circumstances of certain classes of carriers.
  - Wireless “Family Share” Plans
  - Prepaid Wireless Companies
  - Customers who purchase services with large blocks of telephone numbers

# Telephone Numbers In Use

- Companies can recover USF costs from end users only if the FCC assesses numbers that a customer is actually using.
- Using only assigned numbers on NRUF reports is impractical because:
  - companies do not always have a relationship with the end user for every number in the “assigned” category on NRUF; and
  - assigned numbers are not always “in use.”
- Only “telephone numbers in use” should be assessed.
  - “telephone numbers in use” are numbers that a company provides to an end user that provide the ability to receive calls.
  - Must develop a mechanism that assesses companies that provide telephone numbers to customers rather than assessing only the company that reports the number as “assigned” on NRUF.
    - NRUF “assigned” category contains numbers for which another company has a retail relationship with the end user.
    - Examples: telephone numbers provided to resellers and UNE-P providers, “ported out” numbers.

# Unique Categories of Services

- Some categories of services are uniquely situated:
- **Wireless Family Share Plans**
  - any plan that offers an “extension” number off of the same bucket of minutes. If use of one number impedes the use of another number (by counting towards the usage allowance), then all but the primary number should be considered secondary and assessed at 50%.
  - helps reduce “rate shock” for wireless customers caused by changing the contribution methodology.
- **Prepaid Wireless Cards**
  - providers state they serve low volume, low usage customers (elderly, teenagers, low income).
  - 50% assessment recognizes the lower amount of interstate usage for these services and also helps mitigate “rate shock” to this customer base.
- **Lifeline customers**
  - Lifeline customers currently pay USF on interstate usage but not Subscriber Line Charge (SLC). Lifeline services should not be assessed full unit charge.

# Rate Shock to Business Customers

- Any numbers-based plan must also minimize rate shock to customers that purchase large blocks of numbers (i.e., Centrex/PBX).
  - Under a pure numbers-based plan customers that purchase large blocks of numbers will experience significant “rate shock.”
  - Many such customers are state and local governments, educational institutions.
- Must exclude numbers provided to Centrex or other business customers that are not “in use.”
  - i.e., dedicated NXX codes or number blocks provided to a business customer but not used (or paid for) by that customer.
- Allow companies flexibility to recover contribution costs across different classes of customers, using some type of equivalency ratio similar to what exists under the current system.
  - The Centrex/PBX market is very competitive and needs to be assessed in “technology neutral” manner.
  - USF policy should not determine whether a particular business service succeeds or fails.

# Services Not Packaged or “Bundled” with a Telephone Number

- Some services such as special access services and calling card services.
  - Are not likely to use a telephone number and are unlikely to be packaged or “bundled” with other services that use a telephone number.
- Continue the current assessment based on interstate retail revenues, in the same proportion as they are assessed today.
- Capacity based “tiers” are bad public policy.
  - The market is producing faster and faster connections at attractive prices.
  - Systems that “tax” these faster connections at higher rates will penalize providers for providing more advanced services. Policy should encourage not discourage these developments in the market.
- Consider how non-regulated carriers implement these requirements to ensure a balanced plan and to avoid the misreporting of interstate retail revenue.
- Could establish a safe-harbor or some other balanced approach for all market players to ensure fair assessment of these charges.

# Broadband Services Should Not Be Assessed

- Broadband services should not be assessed.
- Broadband customers will still pay into the fund because they will be assessed for the numbers they use, whether for traditional voice, VoIP or some other technology.
- One important goal is to reduce double assessments:
  - industry trend is to offer services in packages or bundles.
- Connections are not practical.
  - How to determine what is a “connection”?
  - What if video is provided over a broadband connection or over IP? Which service is assessed? Are they assessed equally?



# Other Issues

- Industry will require at least a one-year transition to a numbers-based system.
  - Companies will need to make significant modifications to billing systems.
  - Commission will need to develop a reporting system or significantly modify the current NRUF reporting system in order to assess directly companies providing telephone numbers to end users.
  - Modifications will be required to Form 499 and other USAC procedures.
- The Commission should assess telephone number equivalents to capture VoIP providers or others that may move away from telephone numbers. The Commission should consider a further notice of proposed rulemaking to determine the mechanism to accomplish this.
- An “affordability” finding pursuant to Section 254 is necessary.
  - The Commission is required to make a finding that the new system is consistent with the principles in the Act, including that the per unit assessment (whether, for example, \$1.00 or \$1.20) is “affordable.”
  - In order to determine the amount of the per unit assessment, the Commission must determine how many telephone numbers are “in use.” Commission may consider issuing data requests or further notice.